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# TIME TO REVIEW ASSET ALLOCATIONS

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*This article is relevant to financial professionals and is not relevant to an individual investor. Individual investors should speak with a financial professional about their investing questions.*

In December 2019, WisdomTree completed a comprehensive research study examining the mindsets of almost 2,000 consumers<sup>1</sup> as part of a broader study on asset allocation model portfolio usage. At that time, investors were extremely confident as they continued to ride the wave of a more-than-decade-long [bull market](#). Since the market collapse, sentiments have changed. Consumers today are shaken and fearful.

## Don't Be Afraid to Reposition Portfolios

In the study, more than 50% of investors said they hadn't made many changes in their portfolios other than slight [rebalancing](#) over the past three years. We also found the average advisor has not meaningfully changed client portfolios in more than 10 years.<sup>2</sup>

If we believe markets are going to recover from recent losses, what questions can advisors help their clients answer to best position?

Here are a few.

### 1. Is the investment policy still reflective of the current risk profile?

It's a good idea for advisors to review their client's allocation to make sure it's still appropriate for their goals and determine if any circumstances have changed that will alter their investment plan. During large sell-offs we often find risk tolerances may not be as aggressive as we once thought.

### 2. Is the allocation in line with the investment policy?

As the bull market ran in the U.S., many investors became over-weight in U.S. stocks. Advisors, if your clients have cash on the sideline, you can consider advising dollar-cost averaging<sup>3</sup> to rebalance back to their investment policy allocation.

It's not possible to time the market or know when the market will bottom. Dollar-cost averaging can help to smooth purchase prices over time and ensure that your clients are not buying all their shares at the highs or the lows of the market.

Look for under-weight and undervalued areas in the market to re-establish positions back to investment policies. As shown below in the Global Fund Manager Survey chart, which examines fund managers' positioning of several asset classes and sectors, investors are generally under-weight in international and emerging markets relative to history.

## FMS: Positioning vs. History



Source: BofA Global Fund Manager Survey. Weights subject to change. A z-score give you an idea of how far from the mean a data point is.

Today the [valuations](#) on the [MSCI EAFE](#) and [MSCI Emerging Markets Indexes](#) are trading at more than 20% discounts relative to their average over history, [signaling a potential entry point for long-term investors](#).

**Own quality overseas:** When markets are [volatile](#), exposure to the [quality factor](#) can help mitigate volatility while maintaining broad exposure to the markets. Companies that exhibit higher profitability and low [leverage](#) can potentially [give investors a cushion in times of market stress](#).

### 3. How to reposition to potentially generate income in a [low-yield](#) environment?

The largest risk for retirees is the risk of outliving their money. The traditional 60% equity/40% fixed income ([60/40](#)) portfolio approach may no longer be optimal for retirees in the current global investment market.

In today's low-yield environment, we believe quality [dividend](#)-paying value stocks need to be the foundation of income-producing portfolios. For example, today our [U.S. LargeCap Dividend Fund \(DLN\)](#) has a current dividend yield<sup>4</sup> of 3.76% versus .60 for the [10-year Treasury](#) bond. *For standardized performance of DLN, please click [here](#).*

As retirees rethink the old 60/40 model, WisdomTree believes they will need to allocate more toward equities over fixed income and tilt toward factors such as dividend yield to seek potentially higher income generation. WisdomTree is an industry leader in dividend ETFs and recently launched the [Siegel-WisdomTree Longevity Model Portfolio to address the shortcomings in the traditional 60/40 allocation](#).

### 4. Are there [tax loss harvesting](#) opportunities?

Many positions may currently be "underwater." Rather than "wait it out," actively seek to tax loss harvest by swapping out of existing losing positions and into similar ETF positions. The losses may be pocketed for offsetting future gains in a portfolio, and the investor remains fully invested. If appropriate for your situation, you could use this as an opportunity to sell declining, relatively expensive mutual fund positions and move into [more tax-efficient, transparent and lower-cost ETFs](#).

As the saying goes, "Never let a good crisis go to waste." With markets facing heavy volatility, now could be a great time for advisors to speak with their clients about refreshing their allocation.

<sup>1</sup>The results have a +/- 2% margin of error.

<sup>2</sup>2020 WisdomTree Model Portfolio Research Study.

<sup>3</sup>Dollar-cost averaging is an investment strategy in which an investor divides up the total amount to be invested across periodic purchases of a target asset in an effort to reduce the impact of volatility on the overall purchase.

<sup>4</sup>Dividend yield refers to a stock's annual dividend payments to shareholders, expressed as a percentage of the stock's current price.

#### Important Risks Related to this Article

*Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is at [wisdomtree.com](#)*

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Dollar-cost averaging neither guarantees a profit nor protects against a loss in a prolonged declining market. Because dollar-cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investing through periods of low prices.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

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You cannot invest directly in an index.

## DEFINITIONS

**Bullish** : a position that benefits when asset prices rise.

**Rebalance** : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**MSCI EAFE Index** : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

**MSCI Emerging Market Index** : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**Quality Factor** : Excess returns achieved by companies exhibiting higher quality or profitability vs the market. Typically measured using operating profitability, return on equity and/or return on assets.&nbsp;.

**Leverage** : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**60/40 Portfolio** : A portfolio of 60% equities and 40% fixed income.

**Dividend** : A portion of corporate profits paid out to shareholders.

**10- Year Treasury** : a debt obligation of the U.S. government with an original maturity of ten years.

**Tax Loss Harvesting** : Selling securities at a loss to offset a capital gains tax liability. Tax gain/loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains.